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SUBJECT: THREATS TO BONNY LNG PROJECT

1. (SBU) Summary: The project managers have shut down the \$1.2 billion train six construction of the Nigeria Liquid Natural Gas (NLNG) Plus Project on Bonny Island twice in the last two months due to violence and sabotage. The project management, headed by a TSKJ, a subsidiary of Kellogg, Brown and Root (KBR), in turn a subsidiary of Halliburton, said that if security were not restored, they might pull out of the project. Given the current problems, TSKJ had incurred costs that the project owners so far had not reimbursed, causing them to lose tens of millions of dollars. The NLNG corporation, a joint venture between the Nigerian National Petroleum Company (NNPC), Shell and others, so far did not appear to take the security problems seriously. TSKJ believed Rivers State Governor Peter Odili had the means to settle many of the problems, and was scheduled to meet him. TSKJ planned to restart work the week of September 4, but would fire a large group of troublemakers, institute strict security procedures, and greatly increase police presence at the project. Current projections are for natural gas to overtake oil as a revenue earner for Nigeria in the next decade, but only if security problems do not derail project construction, included a slated \$5 billion expansion of the Bonny Island facility. End Summary.

2. (SBU) On September 2, Joe Dougherty, TSKJ site resident manager of the NLNG Plus project on Bonny Island called on the Ambassador to discuss the security problems that had forced his company to shut down work at the site twice in the last month. TSKJ is subsidiary of Kellogg, Brown and Root, a soon to be spun off subsidiary of Halliburton. TSKJ is building train six of the NLG project and operating the site during construction. The project currently loads two tankers a week of LNG. Dougherty estimated that each tanker produced a profit of \$15 million, so losses are \$30 million for each week the project is shut down. The kidnapping of three Filipino workers and labor unrest resulting in vandalism and sabotage at the plant had forced them to shut down all work and lock down the site twice in the last month.

3. (SBU) So far NLNG, the owner of the project, had not agreed to compensate TSKJ for the losses incurred, nor did the owner or its shareholders (NNPC and Shell) appear to take the security problems seriously, dismissing them as local labor squabbles. Though Dougherty agreed that the root of the problem was labor unrest, the problems involved were serious. With death threats frequent, and an actual kidnapping of expatriate personnel, the safety of project was a real issue. The occupation of work sites and the damaging of equipment could have even more serious consequences. In a natural gas plant pressure imbalances could cause catastrophic explosions. Finally, the company would have no incentive to continue work if

financial losses continued to mount. Most of worker demands did not apply directly to their employer, but rather centered around taxes and other deductions. In an earlier case, the governor agreed to halve income taxes for the Bonny Island workers. Thus much of the unrest is directed more at the state and federal government. Jockeying for advantage and access to fees among the 22 local rulers also might be a factor behind some of the trouble.

14. (SBU) Dougherty believed that Rivers State governor Peter Odili had the most authority to resolve the issues and restore security. TKSJ had scheduled meeting with the governor for August 31; that was pushed back to September 5. TKSJ planned to resume operations at Bonny Island the week of September 4, starting with the firing of about 500 troublemakers. The remaining workers would be subjected to drug screening, security searches and entering and leaving the compound, and stricter access controls. To prevent the fired workers from causing trouble, TKSJ planned to have a greatly expanded presence of armed police. Drug screening could remove up to an additional 1000 workers. All this would impact the project, which was already short of about 1000 workers, but Dougherty expected that eventually the jobs would be filled. Labor contracts were a chief source of revenue for local leaders, who as labor brokers got a percentage of the salary of each worker provided to the site. The company's lawyer, who is a traditional ruler in neighboring Brass Island, in a subsequent meeting with the Ambassador, said the general atmosphere of lawlessness in the Delta was a factor behind a standard labor dispute escalating into greater violence.

15. (SBU) If NLNG continued to balk at covering losses due to the security problems and if Governor Odili failed to help reduce future security problems, Dougherty said the company would look at pulling out of the project. Further, they were preparing to bid on the work of train seven and further expansion, slated to be up to \$5 billion of new investment, but would have to review their future plans. Comment: Natural gas is set to overtake oil as Nigeria's largest revenue earner within a decade. If unresolved, security problems in the Delta could be a serious set back to the trend, and an obstacle for U.S. investment and contracts in Nigeria. CAMPBELL